

STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
300 Capitol Mall, 17th Floor
Sacramento, California 95814

REG-2006-00002

INITIAL STATEMENT OF REASONS

In a public hearing on September 28, 2006 at 9:30 A.M., the Insurance Commissioner will consider (1) amendments to the California Workers' Compensation Uniform Statistical Reporting Plan—1995, Title 10 CCR §2318.6; (2) amendments to the California Workers' Compensation Experience Rating Plan—1995, Title 10 CCR §2353.1; and (3) the approval of pure premium rates developed by the designated rating organization. The hearing will be held in response to a filing by the Workers' Compensation Insurance Rating Bureau of California ("WCIRB") submitted on August 16, 2006.

Pursuant to Insurance Code Sections 11734 and 11751.5, the Insurance Commissioner has designated the WCIRB as his rating organization and statistical agent. As the designated rating organization and statistical agent, the WCIRB has developed and submitted for Insurance Commissioner approval revisions to the California Workers' Compensation Uniform Statistical Reporting Plan—1995 and the California Workers' Compensation Experience Rating Plan—1995 and has advised that proposed changes to the pure premium rates will be submitted for approval on or about September 15, 2006. Pure premium rates are advisory only; however, adherence to the regulations contained in the California Workers' Compensation Uniform Statistical Reporting Plan—1995, and the California Workers' Compensation Experience Rating Plan—1995 is mandatory. With regard to the standard classification system developed by the WCIRB and approved by the Insurance Commissioner, Insurance Code Section 11734 provides that an insurer may develop its own classification system if it is filed with the Insurance Commissioner 30 days prior to its use and is not disapproved by the Insurance Commissioner for failure to demonstrate that the data produced by the insurer's classification system can be reported consistently with the California Workers' Compensation Uniform Statistical Reporting Plan—1995 or the classification system developed by the WCIRB and approved by the Insurance Commissioner.

The Insurance Commissioner also has instructed the WCIRB to file and submit advisory rules and rating plans for review. The WCIRB is submitting amendments to the California Insolvent Insurer Rating Adjustment Plan.

The pure premium rates recommended by the WCIRB to be effective January 1, 2007 will be submitted on or about September 15, 2006, following receipt of accident year experience valued as of June 30, 2006. The proposed revisions to the regulations to be effective January 1, 2007, are set forth in its filing and are summarized below:

AMEND THE CALIFORNIA WORKERS' COMPENSATION UNIFORM STATISTICAL REPORTING PLAN—1995

The WCIRB recommends amending the California Workers' Compensation Uniform Statistical Reporting Plan—1995 (USRP). These amendments are proposed to become effective January 1, 2007 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2007.

The WCIRB recommends that:

1. Part 1, *General Provisions*, Section I, *Introduction*, Rule 3, *Effective Date*, be amended to show that the effective date of the amended USRP is 12:01 A.M., January 1, 2007.
2. Part 3, *Standard Classification System*, Section III, *General Classification Procedures*, Rule 4, *Standard Exceptions*, be amended for clarity, consistency and editorial purposes.
3. Part 3, *Standard Classification System*, Section IV, *Special Industry Classification Procedures*, Rule 5, *Stores*, be amended for clarity and consistency.
4. Part 3, *Standard Classification System*, Section V, *Payroll — Remuneration*, Rule 1, *Payroll — Remuneration*, Subrule j, *Executive Officers*, Subrule k, *Partners*, Subrule l, *Individual Employers*, and Subrule m, *Members of a Limited Liability Company*, be amended to adjust the minimum and maximum payroll limitations for executive officers, partners, individual employers, and members of a limited liability company to reflect the increase in wage levels that has occurred since the minimum and maximum payroll limitations previously were amended January 1, 2006.
5. Part 3, *Standard Classification System*, Section VI, *Administration of Classification System*, Rule 4, *Audit of Payroll*, be amended to decrease the physical audit threshold to reflect wage inflation and changes in insurer rate levels since the threshold was last amended.
6. Classification 7428(2), *Aircraft Operation — ground schools*, Classification 7428(1), *Aircraft Operation — other than agricultural, scheduled or supplemental air carriers*, and Classification 7429, *Aircraft Operators — all employees*, be amended for clarity and consistency.
7. Classification 9181, *Athletic Teams or Parks — all players on the salary list of employer*, be amended to increase the annual payroll limitation for players from \$87,100 to \$89,700 per year per person to reflect wage inflation.
8. Classifications 5185/5186, *Automatic Sprinkler Installation*, be amended to increase the hourly wage threshold from \$24.00 per hour to \$25.00 per hour to reflect wage inflation.

9. Classification 8078(2), *Beverage Preparation Shops — not bars or taverns*, be amended for clarity and consistency.
10. Classifications 5645(1)/5697(1), *Carpentry — detached private residences*, be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
11. Classifications 5645(2)/5697(2), *Carpentry — dwellings not exceeding three stories*, be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
12. Classifications 5403/5432, *Carpentry*, be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
13. Classifications 5201(1)/5205(1), *Concrete or Cement Work — sidewalks*, be amended to increase the hourly wage threshold from \$21.00 per hour to \$22.00 per hour to reflect wage inflation.
14. Classifications 5201(2)/5205(2), *Concrete or Cement Work*, be amended to increase the hourly wage threshold from \$21.00 per hour to \$22.00 per hour to reflect wage inflation.
15. Classification 8019(2), *Document Duplication or Photocopying Service — all employees — including Clerical Office Employees and Outside Salespersons*, be established within the Printing, Publishing and Duplicating industry group to apply to firms engaged in document duplication or photocopying services.
16. Classification 5107, *Door, Door Frame or Pre-Glazed Window Installation — not overhead doors*, be amended for clarity and consistency.
17. Classifications 5190/5140, *Electrical Wiring*, be amended to increase the hourly wage threshold from \$25.00 per hour to \$26.00 per hour to reflect wage inflation.
18. Classifications 6315(2)/6316(2), *Gas Mains or Connections Construction*, be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
19. Classifications 5467/5470, *Glaziers*, be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
20. Classification 8078(3), *Ice Cream or Frozen Yogurt Shops*, be amended for clarity and consistency.
21. Classifications 5027/5028, *Masonry*, be amended to increase the hourly wage threshold from \$21.00 per hour to \$22.00 per hour to reflect wage inflation.

22. Classification 8749, *Mortgage Bankers — all employees — including Clerical Office Employees and Outside Salespersons*, be established.
23. The footnote to Classification 8743, *Mortgage Brokers — all employees — including Clerical Office Employees and Outside Salespersons*, be amended to clarify the distinction between Classification 8743 and Classification 8749 as proposed elsewhere in this Section.
24. Classification 9610, *Motion Pictures — production*, be amended to increase the annual payroll limitation for players from \$87,100 to \$89,700 per year per person to reflect wage inflation.
25. Classification 9420, *Municipal, State or Public Agency Employees — all other employees*, be amended for clarity and editorial purposes.
26. Classifications 5474(1)/5482(1), *Painting Decorating or Paper Hanging*, be amended to increase the hourly wage threshold from \$21.00 per hour to \$22.00 per hour to reflect wage inflation.
27. Classifications 5474(3)/5482(3), *Painting — oil or gas storage tanks*, be amended to increase the hourly wage threshold from \$21.00 per hour to \$22.00 per hour to reflect wage inflation.
28. Classifications 5484/5485, *Plastering or Stucco Work*, be amended to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation.
29. Classification 8019, *Printing — quick printing or photocopying — all employees — including Clerical Office Employees and Outside Salespersons*, be amended to limit the application of this classification to firms engaged in quick printing and add to a suffix (1) to reflect the establishment of the sub classification 8019(2) proposed.
30. Classification 7610, *Radio, Television or Commercial Broadcasting Stations — all employees*, be amended to increase the annual payroll limitation for players from \$87,100 to \$89,700 per year per person to reflect wage inflation.
31. Classifications 5552/5553, *Roofing*, be amended to increase the hourly wage threshold from \$20.00 per hour to \$21.00 per hour to reflect wage inflation.
32. Classification 4414, *Rubber Tire Mfg.*, be eliminated due to inadequate statistical credibility.
33. Classification 8742(1), *Salespersons — outside*, be amended for editorial purposes.
34. Classification 8078(1), *Sandwich Shops — not restaurants*, be amended for clarity and consistency.

35. Classifications 6307/6308, *Sewer Construction*, be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
36. Classifications 5538/5542, *Sheet Metal Work*, be amended to increase the hourly wage threshold from \$22.00 per hour to \$23.00 per hour to reflect wage inflation.
37. Classifications 5630/5631, *Steel Framing — light gauge — residential*, be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
38. Classifications 5632/5633, *Steel Framing — light gauge — commercial*, be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
39. Classification 1710, *Stone Crushing — including construction, repair or maintenance of all buildings, structures or equipment and installation of machinery*, be amended for clarity and consistency.
40. Classification 8039, *Stores — department stores*, be amended to increase the annual payroll threshold from \$700,000 per year to \$800,000 to reflect wage inflation.
41. Classification 7365, *Taxicab Operations — all employees*, be amended to increase the minimum annual payroll per taxicab from \$24,700 per year to \$25,300 to reflect wage inflation.
42. Classification 9529(3), *Tent — erection, removal or repair*, be amended for clarity and consistency.
43. Classification 9156, *Theaters — dance, opera and theater companies*, be amended to increase the annual payroll limitation for performers and directors of performers from \$87,100 to \$89,700 per year per person to reflect wage inflation.
44. Classification 9151, *Theaters — music ensembles*, be amended to increase the annual payroll limitation for performers and directors of performers from \$87,100 to \$89,700 per year per person to reflect wage inflation.
45. Classification 9079(2), *Vending Concessionaires — dispensing food, drinks, candy, etc., at ball parks, race tracks, theaters and exhibitions*, be amended for clarity and consistency.
46. Classifications 5446/5447, *Wallboard Application*, be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.
47. Classifications 6315(1)/6316(1), *Water Mains or Connections Construction*, be amended to increase the hourly wage threshold from \$23.00 per hour to \$24.00 per hour to reflect wage inflation.

48. Classifications 5474(2)/5482(2), *Waterproofing*, be amended to increase the hourly wage threshold from \$21.00 per hour to \$22.00 per hour to reflect wage inflation.
49. Section VIII, *Abbreviated Classifications — Numeric Listing*, be amended to conform to proposed changes to the Standard Classification System.
50. Part 4, *Unit Statistical Report Filing Requirements*, Section I, *General Instructions*, Rule 2, *Effective Date*, Rule 6, *Date of Valuation*, and Rule 7, *Date of Filing*, be amended to require the filing of sixth through the tenth level unit statistical reports. This change is proposed in order to enhance data accuracy and to provide more information regarding loss development patterns.
51. Part 4, *Unit Statistical Report Filing Requirements*, Section II, *Definitions*, Rule 11, *Final Premium(s)*, be amended to account for the extension of the Terrorism Risk Insurance Act of 2002 and to conform to similar changes proposed in the California Workers' Compensation Experience Rating Plan—1995:
52. Part 4, *Unit Statistical Report Filing Requirements*, Section II, *Definitions*, Rule 22, *Medical Loss(es)*, be amended to clarify that costs or fees related to Medicare Set-asides should be reported as medical losses.
53. Part 4, *Unit Statistical Report Filing Requirements*, Section III, *Policy Information (Header)*, Rule 1, *Report Number (Report No.)*, be amended to require the filing of sixth through tenth level unit statistical reports. This change is proposed in order to enhance data accuracy and to provide more information regarding loss development patterns.
54. Part 4, *Unit Statistical Report Filing Requirements*, Section V, *Loss Information*, Subsection A, *General Loss Reporting Instructions*, Rule 3, *Grouped vs. Individual Claim Reporting*, Subpart a, *Grouped Claim Reporting*, be amended to accommodate the sixth through the tenth unit statistical report filing requirements. This change is proposed in order to enhance data accuracy and to provide more information regarding loss development patterns.
55. Part 4, *Unit Statistical Report Filing Requirements*, Section VI, *Subsequent Reports, Correction Reports, and Reporting Methods*, Rule 1, *Subsequent Reports*, be amended to accommodate the sixth through the tenth unit statistical report filing requirements and for clarity. This change is proposed in order to enhance data accuracy and to provide more information regarding loss development patterns.

Appendix

1. Appendix II, *Construction and Erection Classifications*, be amended to reflect amendments to the hourly wage thresholds proposed elsewhere in this filing.

AMEND THE CALIFORNIA WORKERS' COMPENSATION EXPERIENCE RATING PLAN—1995

The WCIRB recommends that the following amendments to the California Workers' Compensation Experience Rating Plan—1995 (Experience Rating Plan) be approved effective January 1, 2007 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2007.

When the WCIRB submits its proposed pure premium rates on or about September 15, 2006, it will also recommend an amendment to Section III, *Eligibility and Experience Period*, Rule 1, *Eligibility Requirements for California Workers' Compensation Insurance*, to adjust the eligibility requirement to reflect the changes in the proposed pure premium rates.

The WCIRB recommends that:

1. Section I, *General Provisions*, Rule 2, *Effective Date*, be amended to show that the effective date of the amended Experience Rating Plan is 12:01 A.M., January 1, 2007.
2. Section I, *General Provisions*, Rule 6, *Subterfuge*, be amended to clarify that evasion of the promulgation of an experience modification is prohibited and to remove the reference to the Inquiries, Complaints and Requests for Action, Reconsideration and Appeals rule because it is redundant.
3. Section II, *Definitions*, Paragraph 2, *Base Premium*, be amended to reference the extension of the Terrorism Risk Insurance Act of 2002.
4. Section III, *Eligibility and Experience Period*, Rule 3, *Experience to be Used for Rating California Workers' Compensation Insurance Risks*, be amended to explicitly indicate that unaudited payroll shall not be used to rate a risk.
5. Section VI, *Tabulation of Experience*, Rule 4, *Losses*, be amended to delete Rule 4j pertaining to post-termination claims with accident dates prior to July 16, 1993 as such claims are no longer used in experience rating, to renumber all subsequent paragraphs in the rule due to the elimination of 4j, and to reference the extension of the Terrorism Risk Insurance Act of 2002 in Rule 4.
6. Section VI, *Tabulation of Experience*, Rule 11, *Post-Termination Claims*, be deleted as such claims with accident dates prior to July 16, 1993 are no longer used in experience rating and to renumber all subsequent Rules in this Section.
7. Section VI, *Tabulation of Experience*, Rule 12, *Mental-Mental and Terrorism Claims*, be amended to remove references to mental-mental claims with accident dates prior to July 16, 1993 since such claims are no longer used in experience rating and to reference the extension of the Terrorism Risk Insurance Act of 2002 and to renumber for consistency with other proposed amendments.

8. Section VI, *Tabulation of Experience*, Rule 13, *Closed Claims*, be amended to conform to the recommended changes to the USRP regarding the addition of the sixth through the tenth unit statistical report filing requirements and to renumber for consistency with other proposed amendments.
9. Section VI, *Tabulation of Experience*, Rule 14b(2), *Revision of Losses*, be deleted to eliminate the reference to post-termination claims and mental-mental claims with accident dates prior to July 16, 1993, since such claims are no longer used in experience rating, and to renumber this Rule and the subsequent Rule in this Section.
10. The expected loss rates and D-ratios shown in Table II, *Expected Loss Rates and Full Coverage D-Ratios*, be amended to reflect the most current data available.
11. The average death value shown in *Table III — B and W Values*, be amended to reflect the most current data available.

APPROVE PURE PREMIUM RATES

Pursuant to California Insurance Code Section 11750.3(b), the WCIRB has proposed to present pure premium rates for approval by the Insurance Commissioner to be effective January 1, 2007 with respect to new and renewal policies as of the first anniversary rating date of a risk on or after January 1, 2007. On or about September 15, 2006, the WCIRB will provide their final recommendations for the advisory pure premium rates, which is pending receipt of data. The Insurance Commissioner shall consider the WCIRB's proposal during the September 28, 2006 hearing and will approve, disapprove or modify the proposed pure premium rates based upon the evidence presented and the comments received prior to the closing of the record in this matter.

REVIEW AMENDMENTS TO THE CALIFORNIA INSOLVENT INSURER RATING ADJUSTMENT PLAN

The following amendments to the California Insolvent Insurer Rating Adjustment Plan were adopted by the WCIRB to be effective January 1, 2007. The amendments to this WCIRB advisory plan are being submitted to the California Department of Insurance for review.

Table 1 — Expected Indemnity Claim Frequency Rates (Per Million Dollars of Payroll), has been amended to reflect updated claim and payroll experience and amendments to the Standard Classification System proposed in Part A, Section A, of this filing.

Table 2 — Rating Values, has been amended to reflect updated claim and payroll experience and amendments to the Standard Classification System.